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File No. 374

Senate Bill No. 185

Senate, April 7, 2014

The Committee on Insurance and Real Estate reported through SEN. CRISCO of the 17th Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

AN ACT CONCERNING CHANGES TO THE STANDARD VALUATION AND NONFORFEITURE LAWS, AND THE USE OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' VALUATION MANUAL.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 38a-78 of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective from passage*):

3 (a) (1) (A) The provisions of this subdivision shall apply, unless
4 otherwise provided in title 38a, to policies and contracts issued prior to
5 the operative date of the Valuation Manual, as set forth in section 2 of
6 this act. As used in this section, "Valuation Manual" means the manual
7 of valuation instructions adopted by NAIC as set forth in section 2 of
8 this act and as amended from time to time.

9 (B) The commissioner shall annually value, or cause to be valued,
10 the reserve liabilities, hereinafter called reserves, for all outstanding
11 life insurance policies and annuity and pure endowment contracts of
12 every life insurance company doing business in this state except that in

13 the case of an alien company, the valuation shall be limited to its
14 United States business. [and may certify the amount of any such
15 reserves, specifying the mortality table or tables, rate or rates of
16 interest, and methods, including net level premium method or other,
17 used in the calculation of such reserves.] In calculating such reserves,
18 [he] the commissioner may use group methods and approximate
19 averages for fractions of a year or otherwise. In lieu of the valuation of
20 the reserves [herein] required of any foreign or alien company, [he] the
21 commissioner may accept any valuation made, or caused to be made,
22 by the insurance [supervisory] regulatory official of any state or other
23 jurisdiction when such valuation complies with the minimum
24 standard [herein] provided [and if the official of such state or
25 jurisdiction accepts as sufficient and valid for all legal purposes the
26 certificate of valuation of the commissioner when such certificate states
27 the valuation to have been made in a specified manner according to
28 which the aggregate reserves would be at least as large as if they had
29 been computed in the manner prescribed by the law of that state or
30 jurisdiction] in subsection (d) of this section.

31 (2) (A) The provisions of this subdivision shall apply to policies and
32 contracts issued on or after the operative date of the Valuation Manual,
33 as set forth in section 2 of this act. The provisions of this subdivision
34 shall not apply to a society subject to section 38a-614, unless such
35 society elects to use the standards pursuant to subdivision (9) of
36 subsection (a) of section 38a-614.

37 (B) As used in this subdivision, subsections (c), (m) and (n) of this
38 section and section 2 of this act:

39 (i) "Accident and health insurance contract" means a policy or
40 contract that incorporates morbidity risk and provides protection
41 against economic loss resulting from accident, sickness or medical
42 conditions as may be specified in the Valuation Manual;

43 (ii) "Appointed actuary" means a qualified actuary who is appointed
44 in accordance with the Valuation Manual to prepare the actuarial
45 opinion required under subsection (c) of this section;

46 (iii) "Company" means an entity that has written, issued or
47 reinsured life insurance contracts, accident and health insurance
48 contracts or deposit-type contracts (I) in this state and has at least one
49 such contract in force or on claim, or (II) in any state and holds a
50 certificate of authority to write life insurance contracts, accident and
51 health insurance contracts or deposit-type contracts in this state;

52 (iv) "Deposit-type contract" means a policy or contract that does not
53 incorporate mortality or morbidity risk and as may be specified in the
54 Valuation Manual and NAIC Accounting Practices and Procedures
55 Manual;

56 (v) "Life insurance contract" means a policy or contract that
57 incorporates mortality risk and as may be specified in the Valuation
58 Manual. "Life insurance contract" includes annuity and pure
59 endowment contracts;

60 (vi) "NAIC" means the National Association of Insurance
61 Commissioners;

62 (vii) "Policyholder behavior" means any action a policyholder,
63 contract holder, certificate holder or any other person with the right to
64 elect options may take under a policy or contract subject to this section.
65 "Policyholder behavior" includes, but is not limited to, lapse,
66 withdrawal, transfer, deposit, premium payment, loan, annuitization
67 or benefit elections prescribed by the policy or contract, except that
68 "policyholder behavior" does not include events of mortality or
69 morbidity that result in benefits prescribed in their essential aspects by
70 the terms of the policy or contract;

71 (viii) "Principle-based valuation" means a reserve valuation that
72 uses one or more methods or one or more assumptions determined by
73 a company and is required to comply with subsection (c) of section 2 of
74 this act;

75 (ix) "Qualified actuary" means a member in good standing of the
76 American Academy of Actuaries who is qualified in accordance with

77 the standards of the American Academy of Actuaries to prepare and
78 sign the actuarial opinion required under subsection (c) of this section
79 and who meets the requirements specified in the Valuation Manual;

80 (x) "Tail risk" means a risk that occurs where the frequency of low
81 probability events is greater than expected under a normal probability
82 distribution or where there are observed events of very significant size
83 or magnitude.

84 (C) The commissioner shall annually value, or cause to be valued,
85 the reserve liabilities, hereinafter called reserves, for all outstanding
86 life insurance contracts, accident and health contracts and deposit-type
87 contracts of every company. In lieu of the valuation of the reserves
88 required of any foreign or alien company, the commissioner may
89 accept a valuation made, or caused to be made, by the insurance
90 regulatory official of any state or other jurisdiction when such
91 valuation complies with the minimum standard provided in
92 subsection (c) of section 2 of this act.

93 (b) (1) The provisions of this subsection shall apply, unless
94 otherwise provided in title 38a, to opinions submitted by and
95 supporting memoranda prepared and provided by qualified actuaries
96 for policies and contracts issued prior to the operative date of the
97 Valuation Manual, as set forth in section 2 of this act.

98 [(1)] (2) Every life insurance company doing business in this state
99 shall annually submit the opinion of a qualified actuary as to whether
100 the reserves and related actuarial items held in support of the policies
101 and contracts specified by the commissioner by [regulation]
102 regulations adopted in accordance with the provisions of chapter 54
103 are computed appropriately, are based on assumptions [which] that
104 satisfy contractual provisions, are consistent with prior reported
105 amounts and comply with applicable laws of this state. The
106 commissioner [by regulation] shall define by regulation the specifics of
107 [this] such opinion and add any other items [deemed to be] the
108 commissioner deems necessary to its scope. For the purposes of this
109 subsection and subsection (i) of this section, "qualified actuary" means

110 a member in good standing of the American Academy of Actuaries
111 who meets the requirements set forth in regulations adopted in
112 accordance with the provisions of chapter 54.

113 (3) (A) Every life insurance company shall also include in the
114 opinion required under subdivision (2) of this subsection, unless
115 exempted by regulations adopted in accordance with the provisions of
116 chapter 54, an opinion of the same qualified actuary as to whether the
117 reserves and related actuarial items held by the company in support of
118 such policies and contracts, when considered in light of the assets held
119 by the company with respect to the reserves and related actuarial
120 items, including, but not limited to, the investment earnings on the
121 assets and the considerations anticipated to be received and retained
122 under such policies and contracts, make adequate provision for the
123 company's obligations under such policies and contracts, including,
124 but not limited to, the benefits under and expenses associated with
125 such policies and contracts.

126 (B) Every qualified actuary that provides an opinion under this
127 subsection shall prepare and provide to the life insurance company a
128 memorandum that supports such opinion. If a life insurance company
129 fails to provide a supporting memorandum at the request of the
130 commissioner or the commissioner determines that a supporting
131 memorandum provided by a life insurance company fails to meet the
132 standards prescribed by the commissioner or is otherwise
133 unacceptable to the commissioner, the commissioner may engage the
134 services by employment or by contract of a qualified actuary at such
135 company's expense to review such opinion and the basis for such
136 opinion and to prepare the supporting memorandum required under
137 this subdivision. The commissioner shall adopt regulations, in
138 accordance with the provisions of chapter 54, to specify (i) the form
139 and substance of and standards for the supporting memorandum, and
140 (ii) the time period for a life insurance company to provide a
141 supporting memorandum after the commissioner has requested such
142 memorandum.

143 (4) The commissioner may adopt regulations, in accordance with the
144 provisions of chapter 54, to provide for a transition period for a life
145 insurance company to establish any higher reserves that the qualified
146 acteeem necessary in order to render the opinion required under this
147 subsection.

148 (5) Every opinion required under this subsection shall:

149 [(2) The opinion shall be] (A) Be submitted with the annual
150 statement reflecting the valuation of such [reserve liabilities] reserves
151 for each year ending on or after December 31, 1991; [.]

152 [(3) The opinion shall apply] (B) Apply to all business in force
153 including individual and group health insurance plans, in form and
154 substance acceptable to the commissioner as specified by regulation; [.]
155 and

156 [(4) The opinion shall be] (C) Be based on standards adopted from
157 time to time by the [actuarial standards board] Actuarial Standards
158 Board and on such additional standards as the commissioner may [by
159 regulation] prescribe by regulations adopted in accordance with the
160 provisions of chapter 54.

161 [(5)] (6) In the case of an opinion required to be submitted by a
162 foreign or alien company, the commissioner may accept the opinion
163 filed by that company with the insurance [supervisory] regulatory
164 official of another state if the commissioner determines that the
165 opinion reasonably meets the requirements applicable to a company
166 domiciled in this state.

167 [(6) For the purposes of this section, "qualified actuary" means a
168 member in good standing of the American Academy of Actuaries who
169 meets the requirements set forth in regulations the commissioner may
170 prescribe.]

171 (7) Except in cases of fraud or wilful misconduct, the qualified
172 actuary shall not be liable for damages to any person, other than the
173 insurance company and the commissioner, for any act, error, omission,

174 decision or conduct with respect to the actuary's opinion.

175 [(8) Disciplinary action by the commissioner against the company or
176 the qualified actuary shall be as defined in such regulations by the
177 commissioner.

178 (9) A memorandum, in form and substance acceptable to the
179 commissioner as specified by regulation, shall be prepared to support
180 each actuarial opinion.

181 (10) If the insurance company fails to provide a supporting
182 memorandum at the request of the commissioner within a period
183 specified by regulation or the commissioner determines that the
184 supporting memorandum provided by the insurance company fails to
185 meet the standards prescribed by the regulations or is otherwise
186 unacceptable to the commissioner, the commissioner may engage a
187 qualified actuary at the expense of the company to review the opinion
188 and the basis for the opinion and prepare such supporting
189 memorandum as is required by the commissioner.

190 (11) Any memorandum in support of the opinion, and any other
191 material provided by the company to the commissioner in connection
192 therewith, shall be kept confidential by the commissioner and shall not
193 be made public and shall not be subject to subpoena, other than for the
194 purpose of defending an action seeking damages from any person by
195 reason of any action required by this section or by regulations adopted
196 under this section provided the memorandum or other material may
197 otherwise be released by the commissioner (A) with the written
198 consent of the company or (B) upon the request of the American
199 Academy of Actuaries stating that the memorandum or other material
200 is required for the purpose of professional disciplinary proceedings
201 and setting forth procedures satisfactory to the commissioner for
202 preserving the confidentiality of the memorandum or other material.
203 Once any portion of the confidential memorandum is referred to by
204 the company in its marketing or is referred to before any governmental
205 agency other than a state insurance department or is released by the
206 company to the news media, all portions of the confidential

207 memorandum shall no longer be confidential.

208 (12) Any regulation adopted by the commissioner under the
209 provisions of this subsection shall be adopted in accordance with the
210 provisions of chapter 54.

211 (c) (1) Every life insurance company, except as exempted by or
212 pursuant to regulation, shall annually include in the opinion required
213 by subdivision (1) of subsection (b) of this section, an opinion of the
214 same qualified actuary as to whether the reserves and related actuarial
215 items held in support of the policies and contracts specified by the
216 commissioner by regulation, when considered in light of the assets
217 held by the company with respect to the reserves and related actuarial
218 items, including but not limited to the investment earnings on the
219 assets and the considerations anticipated to be received and retained
220 under the policies and contracts, make adequate provision for the
221 company's obligations under the policies and contracts, including but
222 not limited to the benefits under and expenses associated with the
223 policies and contracts.

224 (2) The commissioner may provide by regulation for a transition
225 period for establishing any higher reserves which the qualified actuary
226 may deem necessary in order to render the opinion required by this
227 section.]

228 (8) (A) Except as provided in subparagraphs (C) to (E), inclusive, of
229 this subdivision, any memorandum submitted pursuant to
230 subparagraph (B) of subdivision (3) of this subsection and all
231 documents, materials or other information in the possession or control
232 of the Insurance Department relating to such memorandum shall (i) be
233 confidential by law and privileged, (ii) not be subject to disclosure
234 under section 1-210, (iii) not be subject to subpoena, and (iv) not be
235 subject to discovery or admissible in evidence in any civil action in this
236 state. The commissioner may use such memorandum, documents,
237 materials or other information in the furtherance of any regulatory or
238 legal action brought as part of the commissioner's official duties.

239 (B) Neither the commissioner nor any person who receives such
240 memorandum or documents, materials or other information relating to
241 such memorandum while acting under the authority of the
242 commissioner shall be permitted or required to testify in any civil
243 action in this state concerning such memorandum, documents,
244 materials or other information.

245 (C) A supporting memorandum submitted pursuant to
246 subparagraph (B) of subdivision (3) of this subsection and any
247 documents, materials or other information in the possession or control
248 of the Insurance Department relating to such memorandum may be
249 subject to subpoena for the purpose of defending an action for
250 damages from the qualified actuary who prepared such memorandum
251 by reason of an action required by this subsection or any regulations
252 adopted thereunder.

253 (D) The commissioner may release such memorandum or
254 documents, materials or other information in the possession or control
255 of the Insurance Department relating to such memorandum (i) with
256 the written consent of the life insurance company, or (ii) to the
257 American Academy of Actuaries upon request from said academy that
258 such memorandum, documents, materials or other information are
259 required for the purpose of professional disciplinary proceedings and
260 such request sets forth procedures satisfactory to the commissioner for
261 preserving the confidentiality of the memorandum and documents,
262 materials or other information relating to such memorandum.

263 (E) If any portion of such memorandum is (i) referred to by the life
264 insurance company in such company's marketing, (ii) referred to by
265 the life insurance company before a governmental agency other than a
266 state insurance department, or (iii) released by such company to the
267 news media, all portions of the memorandum shall no longer be
268 confidential.

269 (9) To assist the commissioner in the performance of the
270 commissioner's duties, the commissioner may:

271 (A) Share documents, materials or other information, including
272 documents, materials or other information deemed confidential and
273 privileged pursuant to subdivision (8) of this subsection, with (i) other
274 state and federal regulatory officials and international supervisory
275 officials, (ii) the National Association of Insurance Commissioners and
276 its affiliates and subsidiaries, and (iii) state, federal and international
277 law enforcement officials, provided the recipient of any such
278 documents, materials or other information agrees, in writing, to
279 maintain the confidentiality and privileged status of any such
280 documents, materials and other information;

281 (B) Receive documents, materials or other information, including
282 confidential and privileged documents, materials or other information,
283 from (i) the National Association of Insurance Commissioners or its
284 affiliates or subsidiaries, and (ii) regulatory and law enforcement
285 officials of other states or jurisdictions. The commissioner shall
286 maintain as confidential and privileged any documents, materials or
287 other information received with notice or the understanding that such
288 documents, materials or other information are confidential and
289 privileged under the laws of the jurisdiction that is the source of the
290 documents, materials or other information; and

291 (C) Enter into written agreements governing the sharing and use of
292 documents, materials and other information that are consistent with
293 the provisions of this subdivision and subdivision (8) of this
294 subsection.

295 (10) No waiver of any applicable privilege or claims of
296 confidentiality in any documents, materials or other information shall
297 occur as a result of disclosure to the commissioner or sharing
298 authorized under subdivision (9) of this subsection.

299 (c) (1) The provisions of this subsection shall apply to opinions
300 submitted by and supporting memoranda prepared and provided by
301 appointed actuaries for policies and contracts issued on or after the
302 operative date of the Valuation Manual, as set forth in section 2 of this
303 act. The provisions of this subsection shall not apply to a society

304 subject to section 38a-614, unless such society elects to use the
305 standards pursuant to subdivision (9) of subsection (a) of section 38a-
306 614.

307 (2) Every company with outstanding life insurance contracts,
308 accident and health insurance contracts or deposit-type contracts in
309 this state shall annually submit the opinion of the appointed actuary as
310 to whether the reserves and related actuarial items held in support of
311 such policies and contracts are computed appropriately, are based on
312 assumptions that satisfy contractual provisions, are consistent with
313 prior reported amounts and comply with applicable laws of this state.
314 The Valuation Manual shall prescribe the specifics of such opinion and
315 add any other items deemed to be necessary to its scope.

316 (3) (A) Every company with outstanding life insurance contracts,
317 accident and health insurance contracts or deposit-type contracts in
318 this state shall also include in the opinion required under subdivision
319 (2) of this subsection, unless exempted by the Valuation Manual, an
320 opinion of the same appointed actuary as to whether the reserves and
321 related actuarial items held by the company in support of such policies
322 and contracts, when considered in light of the assets held by the
323 company with respect to the reserves and related actuarial items,
324 including, but not limited to, the investment earnings on the assets and
325 the considerations anticipated to be received and retained under such
326 policies and contracts, make adequate provision for the company's
327 obligations under such policies and contracts, including, but not
328 limited to, the benefits under and expenses associated with such
329 policies and contracts.

330 (B) Every appointed actuary that provides an opinion under this
331 subsection shall prepare and provide to the company a memorandum
332 that supports such opinion, in such form and substance as may be
333 specified in the Valuation Manual and acceptable to the commissioner.
334 If a company fails to provide a supporting memorandum at the request
335 of the commissioner within the time period specified in the Valuation
336 Manual or the commissioner determines that a supporting

337 memorandum provided by a company fails to meet the standards
338 prescribed by the Valuation Manual or is otherwise unacceptable to
339 the commissioner, the commissioner may engage the services by
340 employment or by contract of a qualified actuary at such company's
341 expense to review such opinion and the basis for such opinion and to
342 prepare the supporting memorandum required under this subdivision.

343 (4) Every opinion required under this subsection shall:

344 (A) Be submitted with the annual statement reflecting the valuation
345 of such reserves for each year ending on or after December thirty-first
346 of the year of the operative date of the Valuation Manual;

347 (B) Apply to all policies and contracts subject to subparagraph (A)
348 of subdivision (3) of this subsection and any other actuarial liabilities
349 as may be specified in the Valuation Manual; and

350 (C) Be based on standards adopted from time to time by the
351 Actuarial Standards Board or its successor and on such additional
352 standards as may be prescribed in the Valuation Manual.

353 (5) In the case of an opinion required to be submitted by a foreign or
354 alien company, the commissioner may accept the opinion filed by that
355 company with the insurance regulatory official of another state if the
356 commissioner determines that the opinion reasonably meets the
357 requirements applicable to a company domiciled in this state.

358 (6) Except in cases of fraud or wilful misconduct, the appointed
359 actuary shall not be liable for damages to any person, other than the
360 company and the commissioner, for any act, error, omission, decision
361 or conduct with respect to the actuary's opinion.

362 (7) (A) For the purposes of this subdivision:

363 (i) "Confidential information" includes:

364 (I) A supporting memorandum submitted pursuant to
365 subparagraph (B) of subdivision (3) of this subsection or subparagraph

366 (B) of subdivision (3) of subsection (b) of this section and all
367 workpapers, documents, materials, data and other information and
368 copies thereof created, produced or obtained by or disclosed to the
369 commissioner or any other person in connection with such
370 memorandum;

371 (II) Except as provided in subparagraph (B)(iii) of this subdivision,
372 all workpapers, documents, materials, data and other information and
373 copies thereof created, produced or obtained by or disclosed to the
374 commissioner or any other person in the course of an examination
375 under subparagraph (B) of subdivision (2) of subsection (c) of section 2
376 of this act;

377 (III) All reports, workpapers, documents, materials, data and other
378 information developed by a company in support of or in connection
379 with the annual certification required under subparagraph (B) of
380 subdivision (3) of subsection (m) of this section and all workpapers,
381 documents, materials, data and other information and copies thereof
382 created, produced or obtained by or disclosed to the commissioner or
383 any other person in connection with such certification;

384 (IV) Any principle-based valuation report developed pursuant to
385 subparagraph (C) of subdivision (3) of subsection (m) of this section
386 and all workpapers, documents, materials, data and other information
387 and copies thereof created, produced or obtained by or disclosed to the
388 commissioner or any other person in connection with such report; and

389 (V) All workpapers, documents, materials, data and other
390 information submitted pursuant to subsection (n) of this section and all
391 workpapers, documents, materials, data and other information created
392 or produced in connection with such submission, in each case that
393 includes any potentially company-identifying or personally-
394 identifiable information, that is obtained by or provided to the
395 commissioner, and all workpapers, documents, materials, data and
396 other information created, produced or obtained by or disclosed to the
397 commissioner or any other person in connection with such submission.

398 (ii) "NAIC" and "regulatory agency" include their employees,
399 agents, consultants and contractors.

400 (B) (i) Except as provided in subparagraphs (B)(iii) to (B)(vi),
401 inclusive, of this subdivision, a company's confidential information
402 shall (I) be confidential by law and privileged, (II) not be subject to
403 disclosure under section 1-210, (III) not be subject to subpoena, and
404 (IV) not be subject to discovery or admissible in evidence in any civil
405 action in this state. The commissioner may use such confidential
406 information in the furtherance of any regulatory or legal action
407 brought as part of the commissioner's official duties.

408 (ii) Neither the commissioner nor any person who receives
409 confidential information while acting under the authority of the
410 commissioner shall be permitted or required to testify in any civil
411 action concerning such confidential information.

412 (iii) If an examination report or other materials prepared in
413 connection with an examination under section 38a-14 or 38a-14a are
414 not held as confidential under said sections, an examination report
415 under subparagraph (B) of subdivision (2) of subsection (c) of section 2
416 of this act or workpapers, documents, materials, data and other
417 information and copies set forth in subparagraph (A)(i)(II) of this
418 subdivision shall not be confidential information to the same extent as
419 if such examination report under subparagraph (B) of subdivision (2)
420 of subsection (c) of section 2 of this act or workpapers, documents,
421 materials, data and other information and copies set forth in
422 subparagraph (A)(i)(II) of this subdivision had been prepared under
423 section 38a-14 or 38a-14a.

424 (iv) Any confidential information specified in subparagraph (A)(i)(I)
425 or (A)(i)(IV) of this subdivision in the possession or control of the
426 Insurance Department may be subject to subpoena for the purpose of
427 defending an action for damages from the appointed actuary who
428 prepared such supporting memorandum or principle-based valuation
429 report by reason of an action required by this section or any
430 regulations adopted thereunder.

431 (v) The commissioner may release any confidential information
432 specified in subparagraph (A)(i)(I) or (A)(i)(IV) of this subdivision in
433 the possession or control of the Insurance Department with the written
434 consent of the company.

435 (vi) If any portion of a supporting memorandum submitted
436 pursuant to subparagraph (B) of subdivision (3) of this subsection or a
437 principle-based valuation report filed pursuant to subparagraph (C) of
438 subdivision (3) of subsection (m) of this section is (I) referred to by the
439 company in such company's marketing, (II) referred to by the company
440 before a governmental agency other than a state insurance department,
441 (III) publicly volunteered by such company, or (IV) released by such
442 company to the news media, all portions of the memorandum or
443 report shall no longer be confidential.

444 (C) To assist the commissioner in the performance of the
445 commissioner's duties, the commissioner may:

446 (i) Share confidential information with (I) other state, federal and
447 international regulatory agencies, (II) NAIC and its affiliates and
448 subsidiaries, and (III) in the case of confidential information specified
449 in subparagraphs (A)(i)(I) and (A)(i)(IV) of this subdivision, the
450 Actuarial Board for Counseling and Discipline or its successor upon
451 request from said board that such confidential information is required
452 for the purpose of professional disciplinary proceedings, and state,
453 federal and international law enforcement officials. The recipient of
454 any such confidential information shared pursuant to this
455 subparagraph shall agree, in writing, and shall have the legal authority
456 to agree, to maintain the confidentiality and privileged status of any
457 such confidential information in the same manner and to the same
458 extent as required for the commissioner;

459 (ii) Receive workpapers, documents, materials, data and other
460 information, including confidential and privileged workpapers,
461 documents, materials, data and other information, from (I) NAIC or its
462 affiliates or subsidiaries, (II) the Actuarial Board for Counseling and
463 Discipline or its successor, and (III) regulatory and law enforcement

464 officials of other states or jurisdictions. The commissioner shall
465 maintain as confidential and privileged any workpapers, documents,
466 materials, data or other information received with notice or the
467 understanding that such workpapers, documents, materials, data or
468 other information are confidential and privileged under the laws of the
469 jurisdiction that is the source of the workpapers, documents, materials,
470 data or other information; and

471 (iii) Enter into written agreements governing the sharing and use of
472 workpapers, documents, materials, data and other information, that
473 are consistent with the provisions of this subdivision.

474 (D) No waiver of any applicable privilege or claims of
475 confidentiality in any confidential information shall occur as a result of
476 disclosure to the commissioner or sharing authorized under
477 subparagraph (C) of this subdivision.

478 (E) A privilege established under the law of any state or jurisdiction
479 that is substantially similar to a privilege established under
480 subparagraph (B) of this subdivision shall be available and enforced in
481 any proceeding in, and in any court of, this state.

482 (d) (1) The provisions of this subsection shall apply, unless
483 otherwise provided in title 38a, to policies and contracts issued prior to
484 the operative date of the Valuation Manual, as set forth in section 2 of
485 this act.

486 [(d)] (2) Except as otherwise provided in subsections (e), (f) and (l)
487 of this section, the minimum standard for the valuation of all such
488 policies and contracts issued prior to the effective date specified in
489 accordance with the provisions of subsection (h) of section 38-130e of
490 the general statutes, revision of 1958, revised to 1981, shall be that
491 provided by the laws in effect immediately prior to such date, except
492 that the minimum standard for the valuation of annuities and pure
493 endowments purchased prior to January 1, 1973, under group annuity
494 and pure endowment contracts shall be the 1971 Group Annuity
495 Mortality Table, or any modification of this table approved by the

496 commissioner, and an interest rate of five per cent per annum. Except
497 as otherwise provided in subsections (e), (f) and (l) of this section, the
498 minimum standard for the valuation of all such policies and contracts
499 issued on and after such effective date shall be the [commissioner's]
500 commissioners' reserve valuation methods defined in subsections (g),
501 (h) and (j) of this section, with four and one-half per cent interest [for
502 all other such policies and contracts,] and the following tables: [(1)] (A)
503 For all ordinary policies of life insurance issued on the standard basis,
504 excluding any disability and accidental death benefits in such policies,
505 the Commissioners' 1958 Standard Ordinary Mortality Table for such
506 policies issued prior to the compliance date established by subdivision
507 (11) of subsection (e) of section 38a-439, as amended by this act,
508 provided that for any category of such policies issued on female risks,
509 all modified net premiums and present values referred to in this
510 section may be calculated according to an age not more than six years
511 younger than the actual age of the insured and for such policies issued
512 on or after the compliance date established by subdivision (11) of
513 subsection (e) of section 38a-439, [(A)] as amended by this act, (i) the
514 Commissioners' 1980 Standard Ordinary Mortality Table, [or (B)] (ii) at
515 the election of the company for any one or more specified plans of life
516 insurance, the Commissioners' 1980 Standard Ordinary Mortality
517 Table with ten-year select mortality factors, [or (C)] (iii) on or after
518 January 1, 2005, until January 1, 2009, at the election of the company
519 for any one or more specified plans of life insurance issued on or after
520 January 1, 2004, on the basis of the Commissioners' 2001 Standard
521 Ordinary Mortality Table, except that with respect to such plans issued
522 before April 1, 2005, such mortality table shall be used solely for the
523 basis of valuation and nonforfeiture and shall not be used to increase
524 the previously agreed required premium, [or (D)] (iv) issued on or
525 after January 1, 2009, the Commissioners' 2001 Standard Ordinary
526 Mortality Table, or [(E)] (v) any ordinary mortality table, adopted after
527 1980 by the National Association of Insurance Commissioners, that is
528 approved by regulations adopted by the commissioner in accordance
529 with the provisions of chapter 54 for use in determining the minimum
530 standard of valuation for such policies; [(2)] (B) for all industrial life

531 insurance policies issued on the standard basis, excluding any
532 disability and accidental death benefits in such policies, the
533 Commissioners' 1961 Standard Industrial Mortality Table or any
534 industrial mortality table, adopted after 1980 by the National
535 Association of Insurance Commissioners, that is approved by
536 regulations adopted by the commissioner in accordance with the
537 provisions of chapter 54 for use in determining the minimum standard
538 of valuation for such policies; [(3)] (C) for total and permanent
539 disability benefits in or supplementary to ordinary policies or
540 contracts, the tables of period 2 disablement rates and the 1930 to 1950
541 termination rates of the 1952 Disability Study of the Society of
542 Actuaries, with due regard to the type of benefit or any tables of
543 disablement rates and termination rates, adopted after 1980 by the
544 National Association of Insurance Commissioners, that are approved
545 by regulations adopted by the commissioner in accordance with the
546 provisions of chapter 54 for use in determining the minimum standard
547 of valuation for such policies. These tables shall, for active lives, be
548 combined with a mortality table permitted for calculating the reserves
549 for life insurance policies; [(4)] (D) for accidental death benefits in or
550 supplementary to policies, the 1959 Accidental Death Benefits Table or
551 any accidental death benefits table, adopted after 1980 by the National
552 Association of Insurance Commissioners, that is approved by
553 regulations adopted by the commissioner in accordance with the
554 provisions of chapter 54 for use in determining the minimum standard
555 of valuation for such policies. These tables shall be combined with a
556 mortality table permitted for calculating the reserves for life insurance
557 policies; and [(5)] (E) for group life insurance, life insurance issued on
558 the substandard basis and other special benefits, such tables as may be
559 approved by the commissioner.

560 (e) (1) The provisions of this subsection shall apply, unless
561 otherwise provided in title 38a, to policies and contracts issued prior to
562 the operative date of the Valuation Manual, as set forth in section 2 of
563 this act.

564 [(e)] (2) Except as otherwise provided in subsection (f) of this

565 section, the minimum standard for the valuation of all individual
566 annuity and pure endowment contracts issued on or after the effective
567 date as specified in accordance with the provisions of subsection (h) of
568 section 38-130e of the general statutes, revision of 1958, revised to 1981,
569 and for all annuities and pure endowments purchased on or after such
570 effective date under group annuity and pure endowment contracts,
571 shall be the [commissioners] commissioners' reserve valuation
572 methods defined in subsections (g) and (h) of this section and the
573 following tables and interest rates: [(1)] (A) For individual single
574 premium immediate annuity contracts issued on or after such effective
575 date, excluding any disability and accidental death benefits in such
576 contracts, the 1971 Individual Annuity Mortality Table or any
577 individual annuity mortality table, adopted after 1980 by the National
578 Association of Insurance Commissioners, that is approved by
579 regulations adopted by the commissioner in accordance with the
580 provisions of chapter 54 for use in determining the minimum standard
581 of valuation for such contracts, or any modification of these tables
582 approved by the commissioner, and seven and one-half per cent
583 interest; [(2)] (B) for individual annuity and pure endowment contracts
584 issued on or after such effective date, other than single premium
585 immediate annuity contracts, excluding any disability and accidental
586 death benefits in such contracts, the 1971 Individual Annuity Mortality
587 Table or any individual annuity mortality table, adopted after 1980 by
588 the National Association of Insurance Commissioners, that is
589 approved by regulations adopted by the commissioner in accordance
590 with the provisions of chapter 54 for use in determining the minimum
591 standard of valuation for such contract, or any modification of these
592 tables approved by the commissioner, and five and one-half per cent
593 interest for single premium deferred annuity and pure endowment
594 contracts and four and one-half per cent interest for all other such
595 annuity and pure endowment contracts; [(3)] (C) for all annuities and
596 pure endowments purchased on or after such effective date under
597 group annuity and pure endowment contracts, excluding any
598 disability and accidental death benefits purchased under such
599 contracts, the 1971 Group Annuity Mortality Table or any group

annuity mortality table, adopted after 1980 by the National Association of Insurance Commissioners, that is approved by regulations adopted by the commissioner in accordance with the provisions of chapter 54 for use in determining the minimum standard of valuation for such annuities and pure endowments, or any modification of these tables approved by the commissioner, and seven and one-half per cent interest.

607 (f) (1) The provisions of this subsection shall apply, unless otherwise
608 provided in title 38a, to policies and contracts issued prior to the
609 operative date of the Valuation Manual, as set forth in section 2 of this
610 act.

611 [(f) (1)] (2) The interest rates used in determining the minimum
612 standard for the valuation of [(A) all life] the following shall be the
613 calendar year statutory valuation interest rates as defined in this
614 subsection: (A) Life insurance policies issued in a particular calendar
615 year, on or after the compliance date established by subdivision (11) of
616 subsection (e) of section 38a-439, [(B) all] as amended by this act; (B)
617 individual annuity and pure endowment contracts issued in a
618 particular calendar year on or after January 1, 1982; [, (C) all] (C)
619 annuities and pure endowments purchased in a particular calendar
620 year on or after January 1, 1982, under group annuity and pure
621 endowment contracts; [,] and (D) the net increase, if any, in a particular
622 calendar year after January 1, 1982, in amounts held under guaranteed
623 interest contracts. [shall be the calendar year statutory valuation
624 interest rates as defined in this subsection;]

625 [(2)] (3) The calendar year statutory valuation interest rates, I, shall
626 be determined as follows and the results rounded to the nearest one-
627 quarter of one per cent:

628 (A) For life insurance,

$$\begin{array}{l} \text{T1} \quad I = .03 + W (R_1 - .03) \quad + \quad \frac{W}{2} \quad (R_2 - .09); \\ \text{T2} \end{array}$$

629 (B) For single premium immediate annuities and for annuity
630 benefits involving life contingencies arising from other annuities with
631 cash settlement options and from guaranteed interest contracts with
632 cash settlement options,

T3
$$I = .03 + W(R - .03),$$

T4 Where R_1 is the lesser of R and $.09$,

T5 R_2 is the greater of R and $.09$,

T6 R is the reference interest rate defined in subdivision [(4)]

T7 (5) of this subsection and

T8 W is the weighting factor defined in subdivision [(3)]

T9 (4) of this subsection.

633 (C) For other annuities with cash settlement options and guaranteed
634 interest contracts with cash settlement options, valued on an issue year
635 basis, except as stated in subparagraph (B) of this subdivision, the
636 formula for life insurance stated in subparagraph (A) of this
637 subdivision shall apply to annuities and guaranteed interest contracts
638 with guarantee durations in excess of ten years and the formula for
639 single premium immediate annuities stated in subparagraph (B) of this
640 subdivision shall apply to annuities and guaranteed interest contracts
641 with guarantee durations of ten years or less.

642 (D) For other annuities with no cash settlement options and for
643 guaranteed interest contracts with no cash settlement options, the
644 formula for single premium immediate annuities stated in
645 subparagraph (B) of this subdivision shall apply.

646 (E) For other annuities with cash settlement options and guaranteed
647 interest contracts with cash settlement options, valued on a change in
648 fund basis, the formula for single premium immediate annuities stated
649 in subparagraph (B) of this subdivision shall apply.

650 (F) If the calendar year statutory valuation interest rate for any life
651 insurance policies issued in any calendar year determined without
652 reference to this subdivision differs from the corresponding actual rate

653 for similar policies issued in the immediately preceding calendar year
 654 by less than one-half of one per cent, the calendar year statutory
 655 valuation interest rate for such life insurance policies shall be equal to
 656 the corresponding actual rate for the immediately preceding calendar
 657 year. For purposes of applying the foregoing, the calendar year
 658 statutory valuation interest rate for life insurance policies issued in a
 659 calendar year shall be determined for 1980 using the reference interest
 660 rate defined for 1979 and shall be determined for each subsequent
 661 calendar year regardless of the compliance date established by
 662 subdivision (11) of subsection (e) of section 38a-439, as amended by
 663 this act;

664 [(3)] (4) The weighting factors referred to in the formulas stated in
 665 subdivision [(2)] (3) of this subsection are given in the following tables:

666 (A) Weighting Factors For Life Insurance:

T10	Guarantee Duration	Weighting
T11	(Years)	Factors
T12	10 or less	.50
T13	More than 10, but not more than 20	.45
T14	More than 20	.35

667 For life insurance, the guarantee duration is the maximum number of
 668 years the life insurance can remain in force on a basis guaranteed in
 669 the policy or under options to convert to plans of life insurance with
 670 premium rates or nonforfeiture values or both which are guaranteed in
 671 the original policy.

672 (B) Weighting factor for single premium immediate annuities and
 673 for annuity benefits involving life contingencies arising from other
 674 annuities with cash settlement options and guaranteed interest
 675 contracts with cash settlement options: .80

676 (C) Weighting factors for other annuities and for guaranteed interest
 677 contracts, except as stated in subparagraph (B) of this subdivision,
 678 shall be as specified in [tables (i), (ii) and (iii)] the tables in

679 subparagraphs (C)(i), (C)(ii) and (C)(iii) of this subdivision according
 680 to the rules and definitions in [(iv), (v) and (vi)] subparagraphs (C)(iv),
 681 (C)(v) and (C)(vi) of this subdivision:

682 (i) For annuities and guaranteed interest contracts valued on an
 683 issue year basis:

T15	Guarantee Duration	Weighting Factor		
T16	(Years)	For Plan Type		
T17		A	B	C
T18	5 or less	.80	.60	.50
T19	More than 5, not more than 10	.75	.60	.50
T20	More than 10, not more than 20	.65	.50	.45
T21	More than 20	.45	.35	.35

684 (ii) For annuities and guaranteed interest contracts valued on a
 685 change in fund basis, the factors shown in [(i)] subparagraph (C)(i) of
 686 this subdivision increased by:

T22	Plan Type
T23	A B C
T24	.15 .25 .05

687 (iii) For annuities and guaranteed interest contracts valued on an
 688 issue year basis, other than those with no cash settlement options, that
 689 do not guarantee interest on considerations received more than one
 690 year after issue or purchase and for annuities and guaranteed interest
 691 contracts valued on a change in fund basis [which] that do not
 692 guarantee interest rates on considerations received more than twelve
 693 months beyond the valuation date, the factors shown in [(i)]
 694 subparagraph (C)(i) of this subdivision or derived in [(ii)]
 695 subparagraph (C)(ii) of this subdivision increased by:

T25	Plan Type
T26	A B C
T27	.05 .05 .05

696 (iv) For other annuities with cash settlement options and guaranteed
697 interest contracts with cash settlement options, the guarantee duration
698 is the number of years for which the contract guarantees interest rates
699 in excess of the calendar year statutory valuation interest rate for life
700 insurance policies with guarantee duration in excess of twenty years.
701 For other annuities with no cash settlement options and for guaranteed
702 interest contracts with no cash settlement options, the guarantee
703 duration is the number of years from the date of issue or date of
704 purchase to the date annuity benefits are scheduled to commence.

705 (v) Plan type as used in the tables in this subparagraph [(C)] is
706 defined as follows:

707 a. Plan Type A: At any time policyholder may withdraw funds only:
708 (1) With an adjustment to reflect changes in interest rates or asset
709 values since receipt of the funds by the insurance company, or (2)
710 without such adjustment but in installments over five years or more, or
711 (3) as an immediate life annuity, or (4) no withdrawal permitted.

712 b. Plan Type B: Before expiration of the interest rate guarantee,
713 policyholder may withdraw funds only: (1) With an adjustment to
714 reflect changes in interest rates or asset values since receipt of the
715 funds by the insurance company, or (2) without such adjustment but in
716 installments over five years or more, or (3) no withdrawal permitted.
717 At the end of the interest rate guarantee, funds may be withdrawn
718 without such adjustment in a single sum or installments over less than
719 five years.

720 c. Plan Type C: Policyholder may withdraw funds before expiration
721 of interest rate guarantee in a single sum or installments over less than
722 five years either: (1) Without adjustment to reflect changes in interest
723 rates or asset values since receipt of the funds by the insurance
724 company, or (2) subject only to a fixed surrender charge stipulated in
725 the contract as a percentage of the fund.

726 (vi) A company may elect to value guaranteed interest contracts

727 with cash settlement options and annuities with cash settlement
728 options on either an issue year basis or on a change in fund basis.
729 Guaranteed interest contracts with no cash settlement options and
730 other annuities with no cash settlement options [must] shall be valued
731 on an issue year basis. As used in this subsection, an issue year basis of
732 valuation refers to a valuation basis under which the interest rate used
733 to determine the minimum valuation standard for the entire duration
734 of the annuity or guaranteed interest contract is the calendar year
735 valuation interest rate for the year of issue or year of purchase of the
736 annuity or guaranteed interest contract. The change in fund basis of
737 valuation refers to a valuation basis under which the interest rate used
738 to determine the minimum valuation standard applicable to each
739 change in the fund held under the annuity or guaranteed interest
740 contract is the calendar year valuation interest rate for the year of the
741 change in fund;

742 [(4)] (5) The reference interest rate referred to in subdivision [(2)] (3)
743 of this subsection shall be defined as follows: [a.] (A) For all life
744 insurance, the lesser of the average over a period of thirty-six months
745 and the average over a period of twelve months, ending on June
746 thirtieth of the calendar year next preceding the year of issue, of
747 [Moody's Corporate Bond Yield Average-Monthly Average
748 Corporates] the monthly average of the composite yield on seasoned
749 corporate bonds, as published by Moody's Investors Service, Inc.; [b.]
750 (B) for single premium immediate annuities and for annuity benefits
751 involving life contingencies arising from other annuities with cash
752 settlement options and guaranteed interest contracts with cash
753 settlement options, the average over a period of twelve months, ending
754 on June thirtieth of the calendar year of issue or year of purchase of
755 [Moody's Corporate Bond Yield Average-Monthly Average
756 Corporates] the monthly average of the composite yield on seasoned
757 corporate bonds, as published by Moody's Investors Service, Inc.; [c.]
758 (C) for other annuities with cash settlement options and guaranteed
759 interest contracts with cash settlement options, valued on a year of
760 issue basis, except as stated in [b. above] subparagraph (B) of this
761 subdivision, with guarantee duration in excess of ten years, the lesser

762 of the average over a period of thirty-six months and the average over
763 a period of twelve months, ending on June thirtieth of the calendar
764 year of issue or purchase of [Moody's Corporate Bond Yield Average-
765 Monthly Average Corporates] the monthly average of the composite
766 yield on seasoned corporate bonds, as published by Moody's Investors
767 Service, Inc.; [d.] (D) for other annuities with cash settlement options
768 and guaranteed interest contracts with cash settlement options, valued
769 on a year of issue basis, except as stated in [b. above] subparagraph (B)
770 of this subdivision, with guarantee duration of ten years or less, the
771 average over a period of twelve months, ending on June thirtieth of the
772 calendar year of issue or purchase, of [Moody's Corporate Bond Yield
773 Average-Monthly Average Corporates] the monthly average of the
774 composite yield on seasoned corporate bonds, as published by
775 Moody's Investors Service, Inc.; [e.] (E) for other annuities with no cash
776 settlement options and for guaranteed interest contracts with no cash
777 settlement options, the average over a period of twelve months, ending
778 on June thirtieth of the calendar year of issue or purchase, of [Moody's
779 Corporate Bond Yield Average-Monthly Average Corporates] the
780 monthly average of the composite yield on seasoned corporate bonds,
781 as published by Moody's Investors Service, Inc.; [f.] (F) for other
782 annuities with cash settlement options and guaranteed interest
783 contracts with cash settlement options, valued on a change in fund
784 basis, except as stated in [b. above] subparagraph (B) of this
785 subdivision, the average over a period of twelve months, ending on
786 June thirtieth of the calendar year of the change in the fund, of
787 [Moody's Corporate Bond Yield Average-Monthly Average
788 Corporates] the monthly average of the composite yield on seasoned
789 corporate bonds, as published by Moody's Investors Service, Inc.

790 [(5)] (6) In the event that [Moody's Corporate Bond Yield Average-
791 Monthly Average Corporates] the monthly average of the composite
792 yield on seasoned corporate bonds is no longer published by Moody's
793 Investors Service, Inc., or in the event that the National Association of
794 Insurance Commissioners determines that [Moody's Corporate Bond
795 Yield Average-Monthly Average Corporates] the monthly average of
796 the composite yield on seasoned corporate bonds as published by

797 Moody's Investors Service, Inc. is no longer appropriate for the
798 determination of the reference interest rate, an alternative method for
799 determination of the reference interest rate, which is adopted by the
800 National Association of Insurance Commissioners and approved by
801 regulations adopted by the commissioner in accordance with the
802 provisions of chapter 54, may be substituted.

803 (g) (1) The provisions of this subsection shall apply, unless
804 otherwise provided in title 38a, to policies and contracts issued prior to
805 the operative date of the Valuation Manual, as set forth in section 2 of
806 this act.

807 ~~[(g)]~~ (2) Except as otherwise provided in subsections (h), (j) and (l)
808 of this section, reserves according to the ~~[commissioner's]~~
809 commissioners' reserve valuation method, for the life insurance and
810 endowment benefits of policies providing for a uniform amount of
811 insurance and requiring the payment of uniform premiums shall be
812 the excess, if any, of the present value, at the date of valuation, of such
813 future guaranteed benefits provided for by such policies, over the then
814 present value of any future modified net premiums therefor. The
815 modified net premiums for any such policy shall be such uniform
816 percentage of the respective contract premiums for such benefits that
817 the present value, at the date of issue of the policy, of all such modified
818 net premiums shall be equal to the sum of the then present value of
819 such benefits provided for by the policy and the excess of ~~[(1) over (2),~~
820 as follows: (1)] subparagraph (A) of this subdivision over
821 subparagraph (B) of this subdivision, as follows: (A) A net level annual
822 premium equal to the present value, at the date of issue, of such
823 benefits provided for after the first policy year, divided by the present
824 value, at the date of issue, of an annuity of one per annum payable on
825 the first and each subsequent anniversary of such policy on which a
826 premium falls due; provided such net level annual premium shall not
827 exceed the net level annual premium on the nineteen-year premium
828 whole life plan for insurance of the same amount at an age one year
829 higher than the age at issue of such policy; ~~[, and (2)]~~ and (B) a net one
830 year term premium for such benefits provided for in the first policy

831 year provided that for any life insurance policy issued on or after
832 January 1, 1985, for which the contract premium in the first policy year
833 exceeds that of the second year and for which no comparable
834 additional benefit is provided in the first year for such excess and
835 which provides an endowment benefit or a cash surrender value or a
836 combination thereof in an amount greater than such excess premium,
837 the reserve according to the [commissioners] commissioners' reserve
838 valuation method as of any policy anniversary occurring on or before
839 the assumed ending date defined herein as the first policy anniversary
840 on which the sum of any endowment benefit and any cash surrender
841 value then available is greater than such excess premium shall, except
842 as otherwise provided in subsection (j) of this section, be the greater of
843 the reserve as of such policy anniversary calculated as described in this
844 subsection and the reserve as of such policy anniversary calculated as
845 described in this subsection but with the value defined in [subdivision
846 (1)] subparagraph (A) of this [subsection] subdivision being reduced
847 by fifteen per cent of the amount of such excess first year premium, all
848 present values of benefits and premiums being determined without
849 reference to premiums or benefits provided for by the policy after the
850 assumed ending date, the policy being assumed to mature on such
851 date as an endowment, and the cash surrender value provided on such
852 date being considered as an endowment benefit. In making the above
853 comparison, the mortality and interest bases stated in subsections (e)
854 and (f) of this section shall be used. Reserves according to the
855 [commissioners] commissioners' reserve valuation method for: [(A)] (i)
856 Life insurance policies providing for a varying amount of insurance or
857 requiring the payment of varying premiums; [(B)] (ii) group annuity
858 and pure endowment contracts purchased under a retirement plan or
859 plan of deferred compensation, established or maintained by an
860 employer, including a partnership or sole proprietorship, or by an
861 employee organization, or by both, other than a plan providing
862 individual retirement accounts or individual retirement annuities
863 under Section 408 of the Internal Revenue Code, as now or hereafter
864 amended; [(C)] (iii) disability and accidental death benefits in all
865 policies and contracts; and [(D)] (iv) all other benefits, except life

866 insurance and endowment benefits in life insurance policies and
867 benefits provided by all other annuity and pure endowment contracts,
868 shall be calculated by a method consistent with the principles of this
869 subsection.

870 (h) This subsection shall apply, unless otherwise provided in title
871 38a, to all annuity and pure endowment contracts issued prior to the
872 operative date of the Valuation Manual, as set forth in section 2 of this
873 act, other than group annuity and pure endowment contracts
874 purchased under a retirement plan or plan of deferred compensation,
875 established or maintained by an employer, including a partnership or
876 sole proprietorship, or by an employee organization, or by both, other
877 than a plan providing individual retirement accounts or individual
878 retirement annuities under Section 408 of the Internal Revenue Code,
879 as now or hereafter amended. Reserves according to the
880 [commissioners] commissioners' annuity reserve method for benefits
881 under annuity or pure endowment contracts, excluding any disability
882 and accidental death benefits in such contracts, shall be the greatest of
883 the respective excesses of the present values, at the date of valuation,
884 of the future guaranteed benefits, including guaranteed nonforfeiture
885 benefits, provided for by such contracts at the end of each respective
886 contract year, over the present value, at the date of valuation, of any
887 future valuation considerations derived from future gross
888 considerations, required by the terms of such contract, that become
889 payable prior to the end of such respective contract year. The future
890 guaranteed benefits shall be determined by using the mortality table, if
891 any, and the interest rate, or rates, specified in such contracts for
892 determining guaranteed benefits. The valuation considerations are the
893 portions of the respective gross considerations applied under the terms
894 of such contracts to determine nonforfeiture values.

895 (i) (1) The provisions of this subsection shall apply, unless otherwise
896 provided in title 38a, to policies and contracts issued prior to the
897 operative date of the Valuation Manual, as set forth in section 2 of this
898 act.

899 [(i) (1)] (2) In no event shall a company's aggregate reserves for all
900 life insurance policies, excluding disability and accidental death
901 benefits, issued on or after the effective date as specified in accordance
902 with the provisions of subsection (h) of section 38-130e of the general
903 statutes, revision of 1958, revised to 1981, be less than the aggregate
904 reserves calculated in accordance with the methods set forth in this
905 subsection and subsections (f), (g) [, (i)] and (k) of this section, and the
906 mortality table or tables and rate or rates of interest used in calculating
907 nonforfeiture benefits for such policies. [;]

908 [(2) in] (3) In no event shall the aggregate reserves for all policies,
909 contracts and benefits be less than the aggregate reserves determined
910 by the qualified actuary to be necessary to render the opinion required
911 [by] under subdivision (2) of subsection (b) of this section. [;]

912 [(3) reserves] (4) Reserves for any category of policies, contracts or
913 benefits as established by the commissioner may be calculated, at the
914 option of the company, according to any standards which produce
915 greater aggregate reserves for such category than those calculated
916 according to the minimum standard herein provided, but the rate or
917 rates of interest used for policies and contracts, other than annuity and
918 pure endowment contracts, shall not be [higher] greater than the
919 corresponding rate or rates of interest used in calculating any
920 nonforfeiture benefits provided for [therein;] in the policies or
921 contracts.

922 [(4) any] (5) Any such company which at any time shall have
923 adopted any standard of valuation producing greater aggregate
924 reserves than those calculated according to the minimum standard
925 herein provided may, with the approval of the commissioner, adopt
926 any lower standard of valuation, but not lower than the minimum
927 herein provided; provided, for the purposes of this subsection, the
928 holding of additional reserves previously determined by a qualified
929 actuary to be necessary to render the opinion required [by] under
930 subdivision (2) of subsection (b) of this section shall not be deemed to
931 be the adoption of a higher standard of valuation.

932 (j) (1) The provisions of this subsection shall apply, unless otherwise
933 provided in title 38a, to policies and contracts issued prior to the
934 operative date of the Valuation Manual, as set forth in section 2 of this
935 act.

936 [(j)] (2) If in any contract year the gross premium charged by any life
937 insurance company on any policy or contract, in force as of or written
938 after the effective date as specified in accordance with the provisions of
939 subsection (h) of section 38-130e of the general statutes, revision of
940 1958, revised to 1981, is less than the valuation net premium for the
941 policy or contract calculated by the method used in calculating the
942 reserve thereon but using the most recent minimum valuation
943 standards of mortality and rate of interest, the minimum reserve
944 required for such policy or contract shall be the greater of either the
945 reserve calculated according to the mortality table, rate of interest, and
946 method actually used for such policy or contract, or the reserve
947 calculated by the method actually used for such policy or contract but
948 using the minimum standards of mortality and rate of interest in effect
949 in the year that the policy or contract was issued and replacing the
950 valuation net premium by the actual gross premium in each contract
951 year for which the valuation net premium exceeds the actual gross
952 premium. The minimum valuation standards of mortality and rate of
953 interest referred to in this subsection are those standards stated in
954 subsections (d) and (f) of this section. For any life insurance policy
955 issued on or after January 1, 1985, for which the gross premium in the
956 first policy year exceeds that of the second year and for which no
957 comparable additional benefit is provided in the first year for such
958 excess and which provides an endowment benefit or a cash surrender
959 value or a combination thereof in an amount greater than such excess
960 premium, the foregoing provisions of this subsection shall be applied
961 as if the method actually used in calculating the reserve for such policy
962 were the method described in subsection (g) of this section. The
963 minimum reserve at each policy anniversary of such policy shall be the
964 greater of the minimum reserve calculated in accordance with
965 subsection (g) of this section and the minimum reserve calculated in
966 accordance with this subsection.

967 (k) (1) The provisions of this subsection shall apply, unless
968 otherwise provided in title 38a, to policies and contracts issued prior to
969 the operative date of the Valuation Manual, as set forth in section 2 of
970 this act.

971 [(k)] (2) In the case of any plan of life insurance [which] that
972 provides for future premium determination, the amounts of which are
973 to be determined by the insurance company based on then estimates of
974 future experience, or in the case of any plan of life insurance or annuity
975 [which] that is of such nature that the minimum reserves cannot be
976 determined by the methods described in subsections (g), (h) [,] and (j)
977 of this section, the reserves [which] that are held under any such plan
978 [must] shall be appropriate in relation to the benefits and the pattern of
979 premiums for that plan, and be computed by a method [which] that is
980 consistent with the principles of this standard valuation law, as
981 determined by regulations adopted by the commissioner in accordance
982 with the provisions of chapter 54.

983 (l) The commissioner shall adopt regulations in accordance with the
984 provisions of chapter 54 containing the minimum standards applicable
985 to the valuation of health insurance plans issued prior to the operative
986 date of the Valuation Manual, as set forth in section 2 of this act.

987 (m) (1) The provisions of this subsection shall apply to policies and
988 contracts issued on or after the operative date of the Valuation Manual,
989 as set forth in section 2 of this act. The provisions of this subsection
990 shall not apply to a society subject to section 38a-614, unless such
991 society elects to use the standards pursuant to subdivision (9) of
992 subsection (a) of section 38a-614.

993 (2) For policies or contracts subject to a principle-based valuation as
994 specified in the Valuation Manual, a company shall establish reserves
995 using a principle-based valuation that:

996 (A) Quantifies the benefits, guarantees and funding associated with
997 such policies or contracts and their risks, at a level of conservatism that
998 reflects conditions that include unfavorable events that have a

999 reasonable probability of occurring during the lifetime of such policies
1000 or contracts. For policies or contracts with significant tail risk, the
1001 principle-based valuation shall reflect appropriately adverse
1002 conditions to quantify the tail risk;

1003 (B) Incorporates assumptions, risk analysis methods, financial
1004 models and management techniques that are consistent with, but not
1005 necessarily identical to, those utilized within the company's overall
1006 risk assessment process while recognizing potential differences in
1007 financial reporting structures and any prescribed assumptions or
1008 methods;

1009 (C) Incorporates assumptions derived in one of the following ways:
1010 (i) The assumption is prescribed in the Valuation Manual; or (ii) for an
1011 assumption not prescribed in the Valuation Manual, (I) the assumption
1012 is established utilizing the company's available experience, to the
1013 extent such experience is relevant and statistically credible, or (II) to
1014 the extent company data is not available, relevant or statistically
1015 credible, the assumption is established utilizing other relevant and
1016 statistically credible experience; and

1017 (D) Provides margins for uncertainty including adverse deviation
1018 and estimation error, such that the greater the uncertainty, the larger
1019 the margin and resulting reserves.

1020 (3) A company using principle-based valuation for one or more
1021 policies or contracts subject to subdivision (2) of subsection (a) of this
1022 section shall:

1023 (A) Establish procedures for corporate governance and oversight of
1024 the actuarial valuation function consistent with those described in the
1025 Valuation Manual;

1026 (B) Provide to the commissioner and such company's board of
1027 directors an annual certification of the effectiveness of the internal
1028 controls with respect to the principle-based valuation. Such controls
1029 shall be designed to ensure that all material risks inherent in the

1030 liabilities and associated assets subject to such valuation are included
1031 in the valuation and that such valuations are made in accordance with
1032 the Valuation Manual. The certification shall be based on the internal
1033 controls in place as of the end of the preceding calendar year; and

1034 (C) Develop and file with the commissioner upon request a
1035 principle-based valuation report that complies with standards
1036 prescribed in the Valuation Manual.

1037 (4) A principle-based valuation may include a prescribed formulaic
1038 reserve component.

1039 (n) (1) The provisions of this subsection shall apply to policies and
1040 contracts issued on or after the operative date of the Valuation Manual,
1041 as set forth in section 2 of this act. The provisions of this subsection
1042 shall not apply to a society subject to section 38a-614, unless such
1043 society elects to use the standards pursuant to subdivision (9) of
1044 subsection (a) of section 38a-614.

1045 (2) A company shall submit mortality, morbidity, policyholder
1046 behavior or expense experience and other data as prescribed in the
1047 Valuation Manual.

1048 [(m)] (o) (1) The provisions of sections 38a-77 and 38a-433, as
1049 amended by this act, shall apply to policies issued by a company
1050 before the date of its election to comply with section 38-130e of the
1051 general statutes, revision of 1958, revised to 1981, or January 1, 1981,
1052 whichever occurred first.

1053 (2) The provisions of section 38-130e of the general statutes, revision
1054 of 1958, revised to 1981, shall apply to policies issued by a company on
1055 and after the date of such election or on and after January 1, 1981,
1056 whichever occurred first, and before October 1, 1981.

1057 Sec. 2. (NEW) (Effective from passage) (a) (1) The operative date of the
1058 Valuation Manual, as defined in subsection (a) of section 38a-78 of the
1059 general statutes, as amended by this act, shall be January first of the
1060 first calendar year following the first July first as of which all of the

1061 following have occurred:

1062 (A) The Valuation Manual has been adopted by NAIC, as defined in
1063 subsection (a) of section 38a-78 of the general statutes, as amended by
1064 this act, by an affirmative vote of at least forty-two NAIC members or
1065 three-quarters of NAIC members voting, whichever is greater;

1066 (B) The Standard Valuation Law, as amended by NAIC in 2009, or
1067 legislation including substantially similar terms and provisions has
1068 been enacted by states representing greater than seventy-five per cent
1069 of the direct written premiums as reported in the following annual
1070 statements submitted to NAIC for 2008: Life insurance, accident and
1071 health insurance, health insurance or fraternal annual statements; and

1072 (C) The Standard Valuation Law, as amended by NAIC in 2009, or
1073 legislation including substantially similar terms and provisions has
1074 been enacted by at least forty-two of the following fifty-five
1075 jurisdictions: The fifty states of the United States, the District of
1076 Columbia, the United States Virgin Islands, the Commonwealth of
1077 Puerto Rico, American Samoa and Guam.

1078 (2) After all the events set forth in subdivision (1) of this subsection
1079 have occurred, the commissioner shall certify that all such events have
1080 occurred and notify companies of such certification and the effective
1081 date of the operation of the Valuation Manual.

1082 (b) (1) Unless a later effective date has been specified, a change to
1083 the Valuation Manual shall apply on January first of the first calendar
1084 year following the date as of which both of the following have
1085 occurred:

1086 (A) The change to the Valuation Manual has been adopted by NAIC
1087 by an affirmative vote of at least three-quarters of NAIC members
1088 voting but not less than a majority of the total NAIC membership; and

1089 (B) The change to the Valuation Manual has been adopted by NAIC
1090 members representing jurisdictions totaling greater than seventy-five
1091 per cent of the direct written premiums, as reported in the most recent

1092 annual statements submitted to NAIC prior to the vote in
1093 subparagraph (A) of this subdivision, for the following: Life insurance,
1094 accident and health insurance, health insurance or fraternal annual
1095 statements.

1096 (2) After both events set forth in subdivision (1) of this subsection
1097 have occurred, the commissioner shall certify that both such events
1098 have occurred and notify companies of such certification, the change to
1099 the Valuation Manual and the effective date of such change.

1100 (c) (1) The Valuation Manual shall specify:

1101 (A) The minimum valuation standards for policies or contracts
1102 subject to subparagraph (C) of subdivision (2) of subsection (a) of
1103 section 38a-78 of the general statutes, as amended by this act, as
1104 follows: (i) For life insurance contracts, other than annuity contracts,
1105 the commissioners' reserve valuation method, and (ii) for annuity
1106 contracts, the commissioners' annuity reserve valuation method. The
1107 Valuation Manual shall specify minimum reserves for all other policies
1108 or contracts subject to subparagraph (C) of subdivision (2) of
1109 subsection (a) of section 38a-78 of the general statutes, as amended by
1110 this act;

1111 (B) The specific policies or contracts or types of policies or contracts
1112 subject to this section that are required to establish reserves using a
1113 principle-based valuation as set forth in subdivision (2) of subsection
1114 (m) of section 38a-78 of the general statutes, as amended by this act,
1115 and the minimum valuation standards consistent with such
1116 requirements;

1117 (C) For policies or contracts subject to a principle-based valuation,
1118 (i) requirements for the format of reports submitted to the
1119 commissioner pursuant to subparagraph (C) of subdivision (3) of
1120 subsection (m) of section 38a-78 of the general statutes, as amended by
1121 this act, including the information deemed necessary to determine if
1122 the valuation is appropriate and in compliance with this section, (ii)
1123 the assumptions prescribed for risks over which the company does not

1124 have significant control or influence, and (iii) the procedures for the
1125 corporate governance and oversight of the actuarial function and a
1126 process for appropriate waiver or modification of such procedures;

1127 (D) For policies or contracts not subject to a principle-based
1128 valuation, the minimum valuation standard, which shall (i) be
1129 consistent with the minimum valuation standard in effect prior to the
1130 operative date of the Valuation Manual, or (ii) develop reserves that
1131 quantify the benefits, guarantees and funding associated with the
1132 policies or contracts and their risks, at a level of conservatism that
1133 reflects conditions that include unfavorable events that have a
1134 reasonable probability of occurring;

1135 (E) Other requirements including, but not limited to, reserve
1136 methods, models for measuring risk, generation of economic scenarios,
1137 assumptions, margins, use of company experience, risk measurement,
1138 disclosures, certifications, reports, actuarial opinions and memoranda,
1139 transition rules and internal controls; and

1140 (F) The data a company is required to submit under subdivision (5)
1141 of subsection (m) of section 38a-78 of the general statutes, as amended
1142 by this act, the form of such data and to whom such data shall be
1143 submitted and other information that may be required, including data
1144 analyses and reporting of such analyses.

1145 (2) (A) In the absence of a specific valuation requirement or if a
1146 specific valuation requirement in the Valuation Manual is not, in the
1147 opinion of the commissioner, in compliance with this subsection or
1148 subsection (m) of section 38a-78 of the general statutes, as amended by
1149 this act, with respect to such requirement, the commissioner shall
1150 direct a company to comply with the minimum valuation standards
1151 prescribed by regulations adopted in accordance with the provisions of
1152 chapter 54 of the general statutes.

1153 (B) The commissioner may engage the services by employment or
1154 by contract of a qualified actuary, at a company's expense, to perform
1155 an actuarial examination of the company and provide an opinion on

1156 the appropriateness of any reserve assumption or method used by the
1157 company or to review and provide an opinion on the company's
1158 compliance with any requirement set forth in this subsection,
1159 subdivision (2) of subsection (a) of section 38a-78 of the general
1160 statutes, as amended by this act, or subsection (c), (m) or (n) of section
1161 38a-78 of the general statutes, as amended by this act. The
1162 commissioner may rely on the opinion, regarding requirements set
1163 forth in this subsection, subdivision (2) of subsection (a) of section 38a-
1164 78 of the general statutes, as amended by this act, or subsection (c), (m)
1165 or (n) of section 38a-78 of the general statutes, as amended by this act,
1166 of a qualified actuary engaged by the insurance regulatory official of
1167 another state, district or territory of the United States.

1168 (C) The commissioner may require a company to change any
1169 assumption or method that the commissioner deems necessary to
1170 comply with the requirements of this subsection, subdivision (2) of
1171 subsection (a) of section 38a-78 of the general statutes, as amended by
1172 this act, or subsection (c), (m) or (n) of section 38a-78 of the general
1173 statutes, as amended by this act, or the Valuation Manual, and the
1174 company shall adjust its reserves as required by the commissioner.

1175 Sec. 3. Subsection (e) of section 38a-439 of the general statutes is
1176 repealed and the following is substituted in lieu thereof (*Effective from*
1177 *passage*):

1178 (e) The provisions of this subsection shall apply to all policies issued
1179 on or after the compliance date established by subdivision (11) of this
1180 subsection. (1) Except as provided in subdivision (7) of this subsection,
1181 the adjusted premiums for any policy shall be calculated on an annual
1182 basis and shall be such uniform percentage of the respective premiums
1183 specified in the policy for each policy year, excluding amounts payable
1184 as extra premiums to cover impairments or special hazards and also
1185 excluding any uniform annual contract charge or policy fee specified
1186 in the policy in a statement of the method used in calculating the cash
1187 surrender values and paid-up nonforfeiture benefits, that the present
1188 value, at the date of issue of the policy, of all adjusted premiums shall

1189 be equal to the sum of: (A) The then present value of the future
1190 guaranteed benefits provided for by the policy; (B) one per cent of
1191 either the amount of insurance, if the insurance be uniform in amount,
1192 or the average amount of insurance at the beginning of each of the first
1193 ten policy years; and (C) one hundred twenty-five per cent of the
1194 nonforfeiture net level premium as hereinafter defined, provided that
1195 in applying the percentage specified in this subparagraph, no
1196 nonforfeiture net level premium shall be deemed to exceed four per
1197 cent of either the amount of insurance, if the insurance be uniform in
1198 amount, or the average amount of insurance at the beginning of each
1199 of the first ten policy years. The date of issue of a policy for the
1200 purpose of this subsection shall be the date as of which the rated age of
1201 the insured is determined; (2) the nonforfeiture net level premium
1202 shall be equal to the present value, at the date of issue of the policy, of
1203 the guaranteed benefits divided by the present value, at such date of
1204 issue, of an annuity of one per annum payable on the date of issue of
1205 the policy and on each anniversary of such policy on which a premium
1206 becomes due; (3) in the case of policies that, on a basis guaranteed in
1207 the policy, provide for unscheduled changes in benefits or premiums,
1208 or that provide an option for changes in benefits or premiums other
1209 than a change to a new policy, the adjusted premiums and present
1210 values shall initially be calculated on the assumption that future
1211 benefits and premiums do not change from those stipulated at the date
1212 of issue of the policy. At the time of any such change in the benefits or
1213 premiums the future adjusted premiums, nonforfeiture net level
1214 premiums and present values shall be recalculated on the assumption
1215 that future benefits and premiums do not change from those stipulated
1216 by the policy immediately after the change; (4) except as otherwise
1217 provided in subdivision (7) of this subsection, the recalculated future
1218 adjusted premiums for any such policy shall be the uniform
1219 percentage of the respective future premiums specified in the policy
1220 for each policy year, excluding amounts payable as extra premiums to
1221 cover impairments and special hazards, and also excluding any
1222 uniform annual contract charge or policy fee specified in the policy in a
1223 statement of the method used in calculating the cash surrender values

1224 and paid-up nonforfeiture benefits, that the present value, at the time
1225 of change to the newly defined benefits or premiums, of all such future
1226 adjusted premiums shall be equal to the excess of (A) the sum of: (i)
1227 The then present value of the future guaranteed benefits provided for
1228 by the policy and (ii) the additional expense allowance, if any, over (B)
1229 the then cash surrender value, if any, or present value of any paid-up
1230 nonforfeiture benefit under the policy; (5) the additional expense
1231 allowance, at the time of the change to the newly defined benefits or
1232 premiums, shall be the sum of (A) one per cent of the excess, if
1233 positive, of the average amount of insurance at the beginning of each
1234 of the first ten policy years subsequent to the change over the average
1235 amount of insurance prior to the change at the beginning of each of the
1236 first ten policy years subsequent to the time of the most recent
1237 previous change, or, if there has been no previous change, the date of
1238 issue of the policy; and (B) one hundred twenty-five per cent of the
1239 increase, if positive, in the nonforfeiture net level premium; (6) the
1240 recalculated nonforfeiture net level premium shall be equal to the
1241 amount obtained by dividing (A) by (B) where (A) equals the sum of
1242 (i) the nonforfeiture net level premium applicable prior to the change,
1243 multiplied by the present value of an annuity of one per annum
1244 payable on each anniversary of the policy on or subsequent to the date
1245 of change on which a premium would have become due had the
1246 change not occurred, and (ii) the present value of the increase in future
1247 guaranteed benefits provided for by the policy, and (B) equals the
1248 present value of an annuity of one per annum payable on each
1249 anniversary of the policy on or subsequent to the date of change on
1250 which a premium becomes due; (7) notwithstanding any other
1251 provisions of this subsection, in the case of a policy issued on a
1252 substandard basis that provides reduced graded amounts of insurance
1253 so that, in each policy year, such policy has the same tabular mortality
1254 cost as an otherwise similar policy issued on the standard basis that
1255 provides higher uniform amounts of insurance, adjusted premiums
1256 and present values for such substandard policy may be calculated as if
1257 it were issued to provide such higher uniform amounts of insurance on
1258 the standard basis; (8) all adjusted premiums and present values

1259 referred to in this section shall be calculated: (A) (i) For all policies of
1260 ordinary insurance on the basis of the Commissioners' 1980 Standard
1261 Ordinary Mortality Table or at the election of the company, for any one
1262 or more specified plans of life insurance, on the basis of the
1263 Commissioners' 1980 Standard Ordinary Mortality Table with ten-year
1264 select mortality factors, or (ii) on or after January 1, 2005, until January
1265 1, 2009, at the election of the company for any one or more specified
1266 plans of life insurance issued on or after January 1, 2004, on the basis of
1267 the Commissioners' 2001 Standard Ordinary Mortality Table, except
1268 that with respect to such plans issued before April 1, 2005, such
1269 mortality table shall be used solely for the basis of valuation and
1270 nonforfeiture and shall not be used to increase the previously agreed
1271 required premium, [;] or (iii) for all policies issued on or after January
1272 1, 2009, and prior to the operative date of the Valuation Manual, as set
1273 forth in section 2 of this act, on the basis of the Commissioners' 2001
1274 Standard Ordinary Mortality Table, or (iv) for all policies issued on or
1275 after the operative date of the Valuation Manual, as set forth in section
1276 2 of this act, on the basis of the Commissioners' Standard Mortality
1277 Table, as defined in the Valuation Manual, to determine nonforfeiture
1278 values; (B) for all policies of industrial insurance issued (i) prior to the
1279 operative date of the Valuation Manual, as set forth in section 2 of this
1280 act, on the basis of the Commissioners' 1961 Standard Industrial
1281 Mortality Table, or (ii) on or after the operative date of the Valuation
1282 Manual, as set forth in section 2 of this act, on the basis of the
1283 Commissioners' Standard Mortality Table, as defined in the Valuation
1284 Manual, to determine nonforfeiture values. As used in this subdivision
1285 and subdivision (9) of this subsection, "Valuation Manual" has the
1286 same meaning as provided in subsection (a) of section 38a-78, as
1287 amended by this act; (C) for all policies issued in a particular calendar
1288 year, on the basis of a rate of interest not exceeding the nonforfeiture
1289 interest rate as defined in this subsection, for policies issued in that
1290 calendar year, provided, that: (i) At the option of the company,
1291 calculations for all policies issued in a particular calendar year may be
1292 made on the basis of a rate of interest not exceeding the nonforfeiture
1293 interest rate, as defined in this subsection, for policies issued in the

1294 immediately preceding calendar year; (ii) under any paid-up
1295 nonforfeiture benefit, including any paid-up dividend additions, any
1296 cash surrender value available, whether or not required by subsection
1297 (a) of this section, shall be calculated on the basis of the mortality table
1298 and rate of interest used in determining the amount of such paid-up
1299 nonforfeiture benefit and paid-up dividend additions, if any; (iii) a
1300 company may calculate the amount of any guaranteed paid-up
1301 nonforfeiture benefit including any paid-up additions under the policy
1302 on the basis of an interest rate no lower than that specified in the
1303 policy for calculating cash surrender values; (iv) in calculating the
1304 present value of any paid-up term insurance with accompanying pure
1305 endowment, if any, offered as a nonforfeiture benefit, the rates of
1306 mortality assumed may be not more than those shown in the
1307 Commissioners' 1980 Extended Term Insurance Table for policies of
1308 ordinary insurance and not more than the Commissioners' 1961
1309 Industrial Extended Term Insurance Table for policies of industrial
1310 insurance; (v) for insurance issued on a substandard basis, the
1311 calculation of any such adjusted premiums and present values may be
1312 based on appropriate modifications of the aforementioned tables; (vi)
1313 any ordinary mortality tables, adopted after 1980 by the National
1314 Association of Insurance Commissioners that are approved by
1315 regulations adopted by the commissioner, in accordance with the
1316 provisions of chapter 54, for use in determining the minimum
1317 nonforfeiture standard may be substituted for the Commissioners'
1318 1980 Standard Ordinary Mortality Table with or without ten-year
1319 select mortality factors or the Commissioners' 1980 Extended Term
1320 Insurance Table; (vii) any industrial mortality tables, adopted after
1321 1980 by the National Association of Insurance Commissioners that are
1322 approved by regulations adopted by the commissioner, in accordance
1323 with the provisions of chapter 54, for use in determining the minimum
1324 nonforfeiture standard may be substituted for the Commissioners'
1325 1961 Standard Industrial Mortality Table or the Commissioners' 1961
1326 Industrial Extended Term Insurance Table; (9) the nonforfeiture
1327 interest rate per annum for any policy issued in a particular calendar
1328 year shall be, (i) for policies issued prior to the operative date of the

1329 Valuation Manual, as set forth in section 2 of this act, equal to one
1330 hundred twenty-five per cent of the calendar year statutory valuation
1331 interest rate for such policy as defined in the standard valuation law,
1332 rounded to the nearest one quarter of one per cent, except that for
1333 policies issued on or after January 1, 2016, such interest rate shall not
1334 be less than four per cent if the Valuation Manual is not operative as of
1335 said date, and (ii) for policies issued on or after the operative date of
1336 the Valuation Manual, as set forth in section 2 of this act, as defined in
1337 the Valuation Manual; (10) notwithstanding any provision of the
1338 general statutes, any refiling of nonforfeiture values or their methods
1339 of computation for any previously approved policy form that involves
1340 only a change in the interest rate or mortality table used to compute
1341 nonforfeiture values shall not require refiling of any other provisions
1342 of such policy form; (11) on or after October 1, 1981, but prior to
1343 January 1, 1989, any company may file with the commissioner a
1344 written notice of its election to comply with the provisions of this
1345 subsection on or after a specified date and the provisions of this
1346 subsection shall apply to such company on or after such specified date,
1347 except that on or after January 1, 2005, but prior to January 1, 2009, any
1348 company may file with the commissioner a written notice of its
1349 election to comply with the provisions of this subsection on or after a
1350 specified date with respect to the Commissioners' 2001 Standard
1351 Ordinary Mortality Table and the provisions of this subsection shall
1352 apply to such company. The provisions of this subsection shall apply
1353 to policies issued by any company on or after January 1, 1989, except
1354 that the provisions of this subsection with respect to the
1355 Commissioners' 2001 Standard Ordinary Mortality Table shall apply to
1356 policies issued by any company on or after January 1, 2009, unless
1357 otherwise specified.

1358 Sec. 4. Section 38a-79a of the general statutes is repealed and the
1359 following is substituted in lieu thereof (*Effective from passage*):

1360 Sections 38a-77, [and] 38a-78, as amended by this act, and section 2
1361 of this act shall be known as the "Standard Valuation Law".

1362 Sec. 5. Section 38a-433 of the general statutes is amended by adding
1363 subsection (f) as follows (*Effective from passage*):

1364 (NEW) (f) This section shall apply to policies issued by a company
1365 before the date of its election to comply with section 38-130e of the
1366 general statutes, revision of 1958, revised to 1981, or January 1, 1981,
1367 whichever occurred first.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	38a-78
Sec. 2	<i>from passage</i>	New section
Sec. 3	<i>from passage</i>	38a-439(e)
Sec. 4	<i>from passage</i>	38a-79a
Sec. 5	<i>from passage</i>	38a-433

INS *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note***State Impact:*** None***Municipal Impact:*** None***Explanation***

The bill makes changes to the manner in which insurers' required reserves are established. As the bill addresses the operations of private insurers, there is no fiscal impact.

The Out Years***State Impact:*** None***Municipal Impact:*** None

OLR Bill Analysis**SB 185****AN ACT CONCERNING CHANGES TO THE STANDARD VALUATION AND NONFORFEITURE LAWS, AND THE USE OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS' VALUATION MANUAL.****SUMMARY:**

This bill modifies and expands, in two stages, the scope of the laws governing reserve requirements for insurance companies. Under current law, the insurance commissioner must annually value, or caused to be valued, the reserves of life insurance companies. The bill expands (1) current requirements for an actuary's opinion and memorandum on the sufficiency of the reserves, (2) confidentiality provisions regarding information submitted under these requirements, and (3) the commissioner's powers in using this information.

These provisions run until the National Association of Insurance Commissioners' (NAIC) Valuation Manual goes into effect in Connecticut. At that point, they are superseded by similar provisions that apply to a broader range of insurers. The bill specifies (1) the issues the manual must address and (2) when the manual and its changes go into effect in Connecticut.

Once the manual goes into effect in Connecticut, the bill requires each company issuing life, accident, and health insurance, and deposit-type contracts (those that do not account for the risks of death or sickness) to establish reserves using a "principle-based valuation" (see below) for policies or contracts as the manual requires. The bill specifies the requirements for this valuation approach and sets valuation standards if the manual does not require companies to use this approach. It requires the commissioner to value, or cause to be valued, the reserves for all outstanding contracts in these lines for all

companies that write such contracts in Connecticut or have the authority to do so.

The bill makes minor and technical changes in the statutory minimum standards for valuing the reserves of life insurance plans until the manual goes into effect in Connecticut. Thereafter, if the manual requires using principle-based valuation for the reserves of life, accident and health, or deposit-type contracts, a company that writes such contracts in Connecticut or has the authority to do so must use this valuation approach for such contracts.

The bill extends requirements for an actuary's opinion and memorandum on the sufficiency of the reserves to the contracts the bill covers. It broadens, once the manual goes into effect, the types of information considered confidential.

The provisions that apply once the manual goes into effect govern policies and contracts issued on or after the manual's effective date. Several of these provisions do not apply to a fraternal benefit society, unless it chooses to use the valuation standards that apply to other types of insurers.

The bill makes related minor, conforming, and technical changes (§§ 3, 4, & 5).

EFFECTIVE DATE: Upon passage

MODIFICATIONS OF RESERVE REQUIREMENTS FOR LIFE INSURANCE COMPANIES

§ 1(a)(1) — Commissioner's Duties and Powers

By law, the insurance commissioner must annually value, or cause to be valued, the reserves for all outstanding life insurance policies and annuity and pure endowment contracts of life insurance companies doing business in Connecticut. For alien (non-U.S.) companies, the valuation is limited to the company's U.S. business.

The bill eliminates the commissioner's power to certify the amount of the reserves, specify the mortality table or tables, rate or rates of

interest, and methods used in calculating them.

The bill expands the commissioner's authority to accept a valuation made by or caused to be made by the insurance regulatory official of another state or country. It does so by eliminating the requirement that the other jurisdiction grant reciprocity in valuations made by the commissioner.

§ 1(b)(2-4) — Actuary's Opinion and Memorandum

By law, each life insurance company doing business in Connecticut must annually submit a qualified actuary's opinion and a supporting memorandum as to whether the reserves and related actuarial items held to support its policies and contracts meet statutory requirements. Under the bill, the actuary must be a member in good standing of the American Academy of Actuaries and meet the requirements in the department's regulations. The bill provides that, if other provisions of insurance law conflict with the requirements of the bill or current law, the other provisions govern.

By law, the commissioner can engage an actuary, at the company's expense, if the memorandum is not prepared or is deficient. The bill specifies that the commissioner can do so either by employing or contracting with this actuary.

The bill specifically requires the commissioner to adopt regulations to specify:

1. the standards for the supporting memorandum, and
2. how long the company has to provide a memorandum after the commissioner requests one.

§ 1(b)(8), 1(c) — Confidentiality

The bill broadens the confidentiality provisions to expand the material that cannot be disclosed and the types of protection that apply to confidential material.

Under current law, the commissioner must keep confidential any

memorandum in support of the opinion and any other material the company provides him. This material may not be made public and is not subject to subpoena, other than to defend an action seeking damages by reason of any act required by law.

But the commissioner may release the material:

1. with the company's written consent or
2. if the American Academy of Actuaries requests it for disciplinary proceedings and establishes procedures satisfactory to the commissioner to preserve its confidentiality.

In addition, once the company refers to any part of the memorandum in its marketing or releases the information to the news media, or the information is referred to before a governmental agency other than a state insurance department, the entire memorandum is no longer confidential.

The bill makes all information in the department's possession or control relating to the memorandum, rather than just the memorandum itself, (1) confidential and privileged, (2) exempt from disclosure under the Freedom of Information Act, (3) not subject to subpoena, except to defend an action for damages by the actuary, and (4) not subject to discovery or admissible in evidence in any civil action in this state. It bars the commissioner or anyone who receives the information relating to the memorandum while acting under his authority from being permitted or required to testify in any civil action concerning it.

§ 1(c)(1)) — Commissioner's Powers

The bill allows the commissioner to use information in or related to the memorandum to further any regulatory or legal action brought as part of his official duties. It allows the commissioner to:

1. share information, including information deemed confidential and privileged, with (a) other state, federal and international

regulatory officials, (b) NAIC, its affiliates, and subsidiaries, and (c) state, federal and international law enforcement officials, provided the recipient agrees in writing to maintain its confidentiality and privileged status;

2. receive information, including confidential and privileged information, from (a) NAIC, its affiliates, or subsidiaries and (b) regulatory and law enforcement officials of other jurisdictions; and
3. enter into written agreements governing the sharing and use of the information consistent with these provisions.

The commissioner must maintain the confidentiality and privileged status of any information he receives when notified, or with the understanding, that it is confidential and privileged under the laws of the source jurisdiction. No waiver of any applicable privilege or claims occurs as a result of disclosure to the commissioner or sharing authorized under the bill.

§ 2 —VALUATION MANUAL

The bill requires health, accident, and life insurers and those that write or have authority to write deposit-type contracts to use the NAIC Valuation Manual for determining the value of their reserves once specified triggering events occur.

§ 2(b)(2) — *Issues Addressed in the Manual*

The bill requires the manual to specify:

1. the policies or contracts it covers and the minimum valuation standards for them, including that, for annuity contracts, the commissioners' annuity reserve valuation method must be standard, and for other life insurance contracts, the commissioner's reserve valuation method must be the standard. The manual must specify minimum reserves for all other affected policies or contracts;

2. the policies or contracts or types of policies or contracts that must establish reserves using a principle-based valuation (see below) and the minimum valuation standards consistent with these requirements;
3. for policies or contracts subject to principle-based valuation, (a) the requirements for formatting reports submitted to the commissioner, including the information required to determine if the valuation is appropriate and complies with the bill, (b) the assumptions prescribed for risks beyond the company's significant control or influence, and (c) the procedures for the corporate governance and oversight of the actuarial function and a process for appropriate waiver or modification of these procedures;
4. for policies or contracts not subject to principle-based valuation, the minimum valuation standard must (a) be consistent with the standard in effect before the manual goes into effect, or (b) develop reserves that quantify the benefits, guarantees, and funding associated with the policies or contracts and their risks, at a level of conservatism reflecting conditions that include unfavorable events that have a reasonable probability of occurring;
5. other requirements, at least including reserve methods, models for measuring risk, generating economic scenarios, assumptions, margins, use of company experience, risk measurement, disclosures, certifications, reports, actuarial opinions and memoranda, transition rules, and internal controls; and
6. the data companies must submit, its form, who gets the data, and other information that may be required, including data analyses and reporting of it.

If (1) there is no specific valuation requirement or (2) the commissioner believes that a specific requirement in the manual does not comply with the bill, he must direct a company to comply with the

minimum valuation standards prescribed by department regulations.

Under the bill, “principle-based valuation” uses one or more assumptions or methods determined by a company to value reserves. This valuation must, among other things, quantify the benefits, guarantees, and funding associated with the policies and contracts and their risks. It also must incorporate assumptions, risk analysis methods, financial models, and management techniques that are consistent with those used within the company’s overall risk assessment process while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods.

§ 2(b)(2) — EFFECTIVE DATE OF THE MANUAL

Initial Adoption of the Manual

Under the bill, the manual goes into effect January 1 of the first calendar year following the first July 1 when all of the following have occurred:

1. NAIC, by an affirmative vote of at least 42 of its members or three-quarters of the members voting, whichever is greater, has adopted the manual;
2. the Standard Valuation Law, as amended by NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by states representing more than 75% of the direct written premiums as reported in the following types of annual statements submitted to NAIC for 2008: life insurance, accident and health insurance, health insurance, and fraternal benefit societies; and
3. at least 42 of the 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico, American Samoa, and Guam have enacted the law, as amended by NAIC in 2009, or legislation including substantially similar terms and provisions.

After all of these events occur, the insurance commissioner must certify it and notify affected companies of the certification and the

effective date of the operation of the manual.

Changes to the Manual

Under the bill, unless a later effective date is specified, a change to the manual applies on January 1 of the first calendar year after:

1. NAIC adopts the change by an affirmative vote of at least three-quarters of its members voting but not less than a majority of its total membership and
2. the change has been adopted by NAIC members representing jurisdictions totaling more than 75% of the direct written premiums for life insurance, accident and health insurance, health insurance, or fraternal benefit society annual statements, as reported in the most recent statement submitted to NAIC.

After both have occurred, the commissioner must certify it and notify companies of the certification, the change to the manual, and the change's effective date.

§ 1(m) — ESTABLISHING RESERVES

Once the manual goes into effect, the bill requires each company issuing life insurance, accident and health, and deposit-type contracts to establish reserves using a principle-based valuation for policies or contracts as required by the manual. But the requirement does not apply to fraternal benefit societies, unless they choose to use the valuation standards that apply to other types of insurers.

The valuation must:

1. quantify the benefits, guarantees, and funding associated with the policies or contracts and their risks, at a level of conservatism reflecting conditions that include unfavorable events that have a reasonable probability of occurring during the lifetime of the policies or contracts;
2. incorporate assumptions, risk analysis methods, financial models, and management techniques generally consistent with

those the company uses in its overall risk assessment process;

3. incorporate assumptions prescribed in the manual, or if an assumption is not prescribed in the manual, make the assumption using the company's available experience, to the extent it is relevant and statistically credible, or assumptions established using other relevant and statistically credible experience when its own experience data is not available; and
4. provide margins for uncertainty including adverse deviation and estimation error, so that the greater the uncertainty, the larger the margin and resulting reserves.

For policies or contracts with significant "tail risk" (unlikely, but potentially very expensive risks), the valuation must reflect appropriately adverse conditions to quantify the tail risk.

Governance and Internal Controls

A company using principle-based valuation for one or more policies or contracts must:

1. establish a procedure for corporate governance and oversight of the actuarial valuation function consistent with those described in the manual;
2. annually certify to the commissioner and the company's board of directors the effectiveness of the internal controls with respect to the principle-based valuation; and
3. develop and file with the commissioner, upon request, a principle-based valuation report that complies with standards prescribed in the manual.

The controls must be designed to ensure that:

1. all material risks inherent in the liabilities and associated assets subject to the valuation are included in the valuation, and

2. the valuations made are according to the manual.

The certification must be based on the internal controls in place as of the end of the preceding calendar year.

The company must also submit mortality, morbidity, policyholder behavior or expense experience, and other data in accordance with the manual's requirements. Under the bill, "policyholder behavior" is any action a policyholder, contract holder, certificate holder, or other person who may elect options may take under a policy or contract. Policyholder behavior includes such things as withdrawals, premium payments, and benefit elections prescribed by the policy or contract. But it does not include deaths or illnesses that result in benefits (e.g., a life insurance policyholder dying and his beneficiaries being paid).

§ 2(c) — VALUATION OF RESERVES

The bill requires the commissioner to annually value the reserves for all outstanding life insurance, accident and health, and deposit-type contracts of every company. For out-of-state companies, he may accept a valuation made by the insurance regulatory official of another jurisdiction if it complies with the bill's standards. This requirement does not apply with regard to a fraternal benefit society, unless it chooses to use the valuation standards that apply to other types of insurers.

§ 1(b) — Actuary's Opinion

Under the bill, every company with outstanding contracts in Connecticut must annually submit the opinion of an actuary as to whether the reserves and related actuarial items held in support of the policies and contracts:

1. are computed appropriately,
2. are based on assumptions that satisfy contractual provisions,
3. are consistent with prior reported amounts, and
4. comply with applicable state laws.

In addition to the qualifications required under current law, the bill requires the actuary to be appointed in accordance with the manual.

Unless exempted by the manual, the same actuary must give an opinion as to whether the reserves and related actuarial items adequately provide for the company's obligations under the policies and contracts, including the benefits under and expenses associated with them.

The actuary must prepare a memorandum that supports the opinion and give it to the company. If (1) a company fails to provide a memorandum at the commissioner's request within the time period specified in the manual or (2) the commissioner determines that the memorandum fails to meet the manual's standards or is unacceptable, he may engage another actuary, at the company's expense, to review the opinion and its basis and prepare the memorandum.

Each opinion must:

1. be submitted to the commissioner with the annual statement reflecting the valuation of the reserves for each year ending on or after December 31 of the year the manual goes into effect;
2. apply to all of the affected policies and contracts and any other actuarial liabilities the manual specifies; and
3. be based on standards adopted periodically by the Actuarial Standards Board or its successor and any additional standards prescribed in the manual.

The commissioner may hire or contract with a qualified actuary, at a company's expense, to (1) perform an actuarial examination of the company and (2) provide an opinion on the appropriateness of any reserve assumption or method the company used or to review and provide an opinion on the company's compliance with any of the bill's requirements. The bill allows the commissioner to rely on the opinion, regarding these requirements, of a qualified actuary engaged by the insurance regulatory official of another U.S. jurisdiction..

The commissioner may require a company to change any assumption or method that he deems necessary to comply with the requirements of the bill or the manual, and the company must adjust its reserves as required by the commissioner.

§ 2(g) — CONFIDENTIALITY

Once the manual goes into effect, the bill broadens the types of information considered confidential. At that point, the following information is considered confidential:

1. the memorandum supporting an actuary's opinion and related documents;
2. all reports, documents, materials and other information a company develops in support of or in connection with the annual certification of the effectiveness of its internal controls;
3. any valuation report developed under the bill; and
4. all submitted information regarding mortality, morbidity, policyholder behavior or expense experience, and any related information that includes any potentially company-identifying or personally identifiable information obtained by or provided to the commissioner.

The bill also treats as confidential all documents, materials, and other information and their copies created, produced, or obtained by or disclosed to the commissioner or any other person in the course of an examination conducted under the bill or in connection with the memorandum, certification, report, or information submitted concerning policyholder behavior or expense experience.

Under the bill, a company's confidential information is generally subject to same confidentiality protections that apply to submissions by life insurance companies under current law, as modified by the bill (see above).

§ 2(g)(3) — Commissioner's Powers

To help him perform his duties, the commissioner may share confidential information:

1. with other state, federal, and international regulatory agencies and NAIC, its affiliates, and its subsidiaries and
2. concerning the supporting memorandum or principle-based valuation report, with (a) the Actuarial Board for Counseling and Discipline or its successor upon its request when it needs the information for professional disciplinary proceedings, and (b) state, federal, and international law enforcement officials.

The recipient must agree, in writing, and have the legal authority to agree, to maintain the information's confidentiality and privileged status in the same way and to the same extent as required for the commissioner.

The bill allows the commissioner to receive documents, materials, data, and other information, including those that are confidential and privileged, from the same entities with which he can share such information. He must maintain the confidentiality of any documents, materials, data or other information received with notice or the understanding that they are confidential and privileged under the laws of the jurisdiction that is their source.

The bill allows the commissioner to enter into written agreements governing the sharing and use of documents, materials, data and other information, if they are consistent with its provisions.

Insurance and Real Estate Committee

Joint Favorable

Yea 18 Nay 1 (03/20/2014)